

# The coming scramble for Africa's resources needs a new rulebook



The European Parliament has an important opportunity to influence global rules on resources extraction.

**Paul Collier** explains why these are vital if Africa is to benefit fully from its minerals and energy bonanza

Oil, gas and mineral ores extraction will in the coming decade constitute by far the most important economic opportunity that Africa has ever had. Africa is the last frontier for resource discovery, having been relatively neglected by resource extraction companies that were reluctant to prospect there because of difficult political conditions. But with rising commodity prices, this reluctance is being overcome and prospecting is generating a multitude of new discoveries.

As resource extraction in Africa increases to the OECD average per square kilometer – it currently stands at one fifth of the average – the total volume of extraction can be expected to grow fivefold. High prices combined with future discoveries will generate money flows so vast that if properly managed they can transform many parts of Africa from poverty towards prosperity. Certainly, they will dwarf all other financial flows there.

But the history of resource extraction in Africa has not been kind: too often money

that should have financed productive investment has been looted or squandered. Whether natural resources are plundered, or harnessed for development, depends upon a complex chain of decisions. The first step is capturing for society as a whole enough of the value of the extracted resources. This depends upon the initial sale of prospecting rights being properly handled through transparent competition, and subsequent corporate revenues being subject to a well-designed tax system.

Some recent sales of prospecting rights in Africa have been spectacularly deficient in respect of transparency and competition. In Guinea, for example, rights that appear to have been awarded without significant benefit to the public treasury were swiftly re-sold for several billion euros.

The second step is for a substantial share of the revenues to be invested in assets rather than used for consumption. Unless this is done the rights of future generations are being infringed, because

natural assets that should also belong to future generations are consumed by the present generation. Again, this has often not been done. Cameroon has depleted much of its oil but used the revenues overwhelmingly for consumption, so when the oil runs out this consumption will be unsustainable. The third step is for spending out of revenues, both for investment and consumption, to be conducted efficiently, with proper accountability of public officials.

The first step in preventing a repetition of history is that revenues should be open to public scrutiny. Revenue transparency alone is not enough to ensure good use of natural resources. The lengthy chain of decisions must be got right not just once but repeatedly, although without the transparency of revenues the risks of misuse are of course much higher.

Transparency would also foster trust between companies and local communities. So far, communities in the vicinity of resource extraction have often been hostile to the process, seeing themselves as the victims of environmental damage, while domestic elites and foreign companies are presumed to be the primary beneficiaries. This hostility has made the local operations of extractive industries problematic and costly, witnessed Royal Dutch Shell's experience in the Niger Delta. Attacks on installations have quite often escalated to the extent that overall supplies are significantly reduced and are less secure. In other words, without transparency of revenues and their beneficial uses, resource extraction companies are the inevitable victims of local suspicions.

Nearly all resource extraction in Africa is managed by foreign companies because they have the necessary technical skills. This gives an important role to the jurisdictions in which these companies are registered, as in effect they have the power to set the rules by which the extractive industries operate. Many of these companies are in Europe, so a good deal of power rests ultimately with the European Parliament.

The European Parliament already recognises the importance of revenue transparency in the extractive industries. In 2005 it passed a resolution calling for companies engaged in oil, gas and mining to be required to publish the payments they make to the governments in each of the countries in which they operate. But to date the passage from resolution to implementation has proved problematic. The European Parliament intended that the International Accounting Standards Board (IASB) should take action as it is the body designated to set the International Financial Reporting Standards that apply to EU companies. But after five years the IASB has not even put the matter on its formal agenda for generating new rules.

A result of this delay is that the United States has got ahead of Europe. Last July, the U.S. Congress enacted the Cardin-Lugar provision as part of the Wall Street Reform and Consumer Protection Act 2010. This provision essentially followed the European Parliament's resolution in making such company reporting mandatory. But it uses a different implementation mechanism, namely stock market listing requirements. All listed companies in the U.S. report to

the Securities and Exchange Commission, and listed resource extraction companies are now required to include their payments on a country-by-country and project-by-project basis, and must also publish that information.

The choice of the mechanism that the European Parliament adopts to implement its resolution is clearly not an issue of principle. Fortunately, the Parliament is currently reviewing the rules that guide stock market regulations – the aptly named Transparency Directive. It has already waited long enough for the IASB, so the new review is an obvious opportunity for Parliament to make country-specific reporting a requirement for a European company listing. Those European companies that are cross-listed on the New York Stock Exchange are already required to comply with the resolution of the European Parliament as a result of the recent American legislation, but Europe should not remain dependent upon such a patchy American enforcement mechanism. An appropriate modification of the Transparency Directive is the obvious way to generalise compliance across all of Europe's listed companies.

Between them, European and American rules can require many resource extraction companies to be transparent, but there remain many other companies that come under other jurisdictions. Within the OECD, the main financial centre for smaller resource extraction companies is Toronto, yet the Canadian parliament recently failed narrowly to pass an equivalent requirement for these companies. There are also many Australian resource extraction companies – 360 of

them are currently operating in Africa. In any case, the major new players in resource extraction are not in the OECD. Globally, the second largest such company is Vale, which is Brazilian, and the single largest presence in Africa is now China, although through the Hong Kong market China already has some revenue transparency legislation on its books.

What is now needed is for transparency standards to be globally enforced. The appropriate forum for such collective governmental action is the G20. Its next meeting is to be hosted and chaired in Europe by France. With the American legislation passed last July, the European Parliament can maintain the momentum by swiftly modifying the Transparency Directive for European stock exchanges. With these changes in place, Europe and the U.S. would have a common interest in urging their global adoption by the G20. The proper global governance of resource extraction is an ideal development issue for the G20, not least because the theatrical pledges of aid that were the stuff of G8 meetings have now been recognised as empty rhetoric. If the G20 is to be effective as a development instrument it should begin to tackle the single most important financial flow that Africa and the other low-income regions will attract in this new decade. □

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